BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

COMMENTS OF THE OKLAHOMA CORPORATION COMMISSION

The Oklahoma Corporation Commission respectfully submits its comments to the Federal Communications Commission's Notice of Proposed Rulemaking, In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45, FCC 08-22, Released Jan. 29, 2008.

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I. INTRODUCTION

1. In its Notice of Proposed Rulemaking, the Federal Communications Commission (FCC) seeks comment on ways to reform the high-cost universal service program.[1] The

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1 Notice of Proposed Rulemaking, In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45, FCC 08-22, Released Jan. 29, 2008 (Joint Board NPRM) at para. 1.

FCC incorporates two other rulemakings into the instant proceeding.[2] The FCC seeks comment on three broad issues in the combined rulemaking, as follows:

(a) FCC 08-4: The FCC seeks comment on the rules governing the amount of high-cost universal service support provided to competitive eligible telecommunications carriers (ETCs), including elimination of the "identical support rule".[3]

(b) FCC 08-5: The FCC seeks comment on whether and how to implement reverse auctions (a form of competitive bidding) as a disbursement mechanism for determining the amount of high-cost universal service support for ETCs serving rural, insular, and high-cost areas.[4]

(c) FCC 08-22: The FCC seeks comment on the Federal-State Joint Board's proposal to establish three separate funds with distinct budgets and purposes to replace the Universal Service Fund (USF).[5] The three funds will provide high-cost universal service support for:

- i) broadband services through a Broadband Fund,
- ii) wireless services through a Mobility Fund, and
- iii) wireline services through a Provider of Last Resort Fund.[6]

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2 The FCC incorporated two rulemaking proceedings - Notice of Proposed Rulemaking, In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45, FCC 08-4 (Identical Support NPRM) and Notice of Proposed Rulemaking, In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45, FCC 08-5 (Reverse Auctions NPRM) - into the Joint Board NPRM. Joint Board NPRM at paras. 1 and 9.

3 Identical Support NPRM at para. 1. See also Joint Board NPRM at para. 1.

4 Reverse Auctions NPRM at para. 1. See also Joint Board NPRM at para. 1.

5 Joint Board NPRM at para. 1 and Recommended Decision, In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45, FCC 07J-4 (Recommended Decision) at para. 1 and 11.

6 Recommended Decision at para. 11.

II. SUMMARY

2. After careful consideration of the issues presented in the combined NPRM, the Oklahoma Corporation Commission (OCC) offers its comments. The OCC regulates public utilities within the State of Oklahoma. The OCC is dedicated to the universal service goal that rural consumers have access to telecommunications services that are reasonably comparable to services provided to urban consumers at reasonably comparable rates.[7]

3. The OCC is concerned that growth in Universal Service Fund (USF) support going to competitive ETCs, particularly wireless ETCs, is unsustainable. The OCC is concerned that the USF support going to wireless ETCs has resulted in redundant wireless networks serving rural population centers but has not adequately addressed the fundamental needs of rural consumers in outlying areas. The OCC is also concerned that current universal support mechanisms do not adequately address the developing needs of Oklahoma consumers for advanced telecommunications services like broadband Internet access.

III. THE PANHANDLE PROPOSAL

4. The Identical Support NPRM, Reverse Auction NPRM, and Joint Board NPRM seek comment on ways to restrain growth in USF support going to competitive ETCs. Before providing comment on the specific proposals contained in the Identical Support NPRM, Reverse Auction NPRM, and Joint Board NPRM; the OCC urges the FCC to

[7] See 47 U.S.C. §254(b)(3).

consider a proposal by Panhandle Telecommunications Systems, Inc. (Panhandle Proposal) as an appropriate universal support methodology. The OCC believes that the Panhandle Proposal may resolve the challenges presently facing the USF.[8] The Panhandle Proposal was developed recently and was not included in the various NPRMs. A copy of the Panhandle Proposal is attached to this comment as Attachment A.

5. The Panhandle Proposal would restrain USF growth by eliminating the identical support rule and basing USF support on efficient economic models using cost data submitted by competitive ETCs. The Panhandle Proposal is consistent with the approach suggested by the Identical Support NPRM because the identical support rule will be eliminated and support will be calculated using a carrier's own cost. The Panhandle Proposal is mostly consistent with the Joint Board NPRM because the plan could be implemented within the Mobility Fund but has no provision for state grants as suggested by the Joint Board. However, the Panhandle Proposal is inconsistent with the approach suggested by the Reverse Auction NPRM because reverse auctions would not establish the ETC that receives USF support.

6. When considering the Panhandle Proposal and the issues presented in the various NPRMs, the OCC was mindful of the underlying goal of the USF to provide rural

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8 The OCC does not support the Panhandle Proposal because Panhandle Telephone Company is an Oklahoma company. Rather, the OCC supports the Panhandle Proposal because the OCC believes it strikes the best balance between the goals of restraining growth in the USF while providing rural consumers with telecommunications services that are reasonably comparable to urban telecommunications services at reasonably comparable rates.

consumers with telecommunications services that are reasonably comparable to urban telecommunications services at reasonably comparable rates.[9] The OCC was also mindful that "wireless" competitive ETCs rather than "wireline" competitive ETCs or "wireline" incumbent local exchange companies (LECs) have caused a majority of the recent growth in the USF.[10] Finally, the OCC believes that promoting competition is not the purpose of the USF.[11] However, the OCC believes that the USF should not stifle competition either.[12]

7. The Panhandle Proposal would first distinguish the USF support mechanisms for wireless ETCs and wireline ETCs. This is a practical approach considering that wireless ETCs have caused the recent growth in the USF.[13]

8. Panhandle proposes that a wireline ETC report its costs and receive USF support based on its own costs in a similar manner that an incumbent LEC receives USF support

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9 See Identical Support NPRM at para. 2, Reverse Auction NPRM at para. 2, and Joint Board NPRM at para. 2

10 Identical Support NPRM at para. 9.

11 47 U.S.C. §(b)(1)- (7).

12 The Panhandle Proposal suggests that wireless ETCs be obligated to open their networks to other wireless carriers at wholesale rates that are well below current roaming rates. The OCC supports this concept. USF support gives wireless ETCs significant economic advantages over unsupported carriers in a particular geographic area. An "open network" obligation would achieve the goal of encouraging infrastructure investment in high-cost rural areas but would also allow unsupported carriers to enjoy some benefit from that USF support. To the extent that supported and unsupported carriers can both affordably operate in high-cost areas, consumers will enjoy the benefits of competition without the inefficiencies of supporting multiple wireless networks.

13 Identical Support NPRM at para. 9.

based on its own costs.[14] Panhandle also proposes that the per-line support for wireline ETCs be capped to prevent inefficient business models.[15] The OCC supports a cap on per-line USF support although the OCC expresses no opinion as to the specific cap proposed by Panhandle.

9. Panhandle proposes to limit USF support distributed to wireless ETCs through efficient economic models. The OCC approves of this approach for two reasons. First, wireless ETCs that have previously invested in rural areas with some expectation of USF support would not be punished for their investment by losing a reverse auction. Second, new or existing wireless ETCs would retain the opportunity to expand into unserved or underserved areas in the future. The proposed reverse auctions would foreclose new entrants from expanding into high-cost areas after an auction is held, thereby denying consumers the benefit of new services from new carriers. As previously stated, the OCC agrees that promoting competition is not the purpose of the USF. However, the OCC believes that the USF should not stifle competition either.[16]

10. Panhandle proposes that wireless ETCs receiving high-cost support be obligated to open their networks to other wireless carriers licensed to provide service in the designated territory at wholesale rates.[17] Wholesale rates would be based on a carrier's own costs at levels well below current roaming rates. A specific method to calculate

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14 See Panhandle Proposal at p. 4.
15 Id. at p. 5.
16 See footnote 12, above.
17 Id. at p. 2.

wholesale rates is provided in the Panhandle Proposal. Currently, wireless ETCs pay relatively expensive roaming charges to another wireless carrier or they deny service to their consumers. Two USF reform goals are accomplished if wireless carriers can pay reasonable wholesale rates to access an open USF-supported network in high-cost rural areas. First, the financial incentive to expand several USF-supported wireless networks in high-cost areas would be diminished or eliminated because a relatively low-cost alternative is available. Second, the USF goal of providing telecommunications services to all rural consumers at affordable rates is achieved regardless of which carrier the consumer chooses and without the cost and inefficiency of redundant wireless networks.

11. Panhandle proposes that USF support be calculated on an efficient economic model that compares a single carrier's national average cost per minute against the national average cost per minute for all carriers.[18] USF support would only be paid if the individual carrier's cost per minute was substantially higher (based on a fixed factor) than the national average. Specific USF support would be calculated on the difference between the individual carrier's average and the national average. To the extent that the FCC seeks a more granular approach, regional or state-wide averages could be used instead of national averages. The Panhandle Proposal also contains appropriate caps and safeguards to discourage uneconomic business models.

12. The Panhandle Proposal will place a responsible restraint on the rapid growth in USF wireless support by factoring economies of scale into the support calculation. The

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18 Id. at p. 3 and 4.

OCC also recognizes that appropriate safeguards would be needed to prevent wireless ETCs from gaming the system through accounting devices, classification of services, or the use of affiliate companies to disguise economies of scale.

13. For the reasons previously stated, the OCC endorses and supports the Panhandle Proposal as an appropriate mechanism to curb USF growth. The following comments concerning the identical support rule and reverse auctions may be inconsistent with the Panhandle Proposal. The OCC believes that the Panhandle Proposal is the best methodology for distribution of USF support. In the event the FCC chooses an alternative methodology, like reverse auctions, the OCC provides the following comments.

IV. IDENTICAL SUPPORT NPRM

14. The identical support rule provides competitive ETCs with the same per-line high-cost USF support that incumbent local exchange carriers (incumbent LECs) receive.[19] However, it is generally accepted that wireless ETCs have lower costs on a per-line basis than incumbent LECs. The resulting financial incentive has led to multiple wireless ETCs serving areas that are prohibitively expensive for even one carrier to serve without a subsidy and explosive growth in USF support payments.[20]

15. The FCC tentatively concludes that the identical support rule should be eliminated.[21] The FCC seeks comment on the elimination of the identical support rule,

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19 Identical Support NPRM at para. 1.

20 See Reverse Auction NPRM at para. 10 and Identical Support NPRM at para. 4.

21 Identical Support NPRM at para. 1.

whether USF support should be based on the competitive ETC's own costs, and what methodologies should be employed to determine the competitive ETC's costs.[22]

16. The OCC supports elimination of the identical support rule. Between 2001 and 2007, annual USF support for competitive ETCs has grown from under $17 million to an estimated $1.1 billion.[23] The FCC notes that USF support for incumbent LECs has remained flat or even decreased during the same period.[24] This explosive growth in USF support for competitive ETCs cannot be sustained indefinitely. Further, the OCC agrees that consumers should not be obligated to provide support to multiple competitors in rural areas that are prohibitively expensive for even one carrier to serve without a subsidy.[25] The goal of the USF is not to provide rural consumers with a competitive choice of carriers. Rather, the purpose of the USF is to provide rural consumers with reasonably comparable telecommunications services at reasonably comparable rates to telecommunications services in urban areas.[26]

17. The OCC agrees with the FCC's assessment that the identical support rule has created a number of problems.[27] These problems include a significant increase in the number of supported lines; rapid growth in the size of the USF; an incentive to invest in only the portions of high-cost, rural areas with relatively high population densities; and a

22 Id.
23 Id. at para. 4.
24 Id.
25 See Reverse Auction NPRM at para. 10.
26 See Identical Support NPRM at para. 2, Reverse Auction NPRM at para. 2, and Joint Board NPRM at para. 2
27 Identical Support NPRM at para. 10.

lack of incentive to invest in the portions of high-cost, rural areas with relatively low population densities.[28] Wherefore, the OCC supports elimination of the identical support rule.

18. The OCC supports the FCC's conclusion that competitive ETCs should receive support based on their own costs, which better reflect real investment in high-cost, rural areas.[29] The OCC believes that this approach is consistent with the goal of competitive neutrality. Incumbent LECs have many obligations that increase their underlying costs, including, but not limited to, minimum service standards placed on wireline technology, the obligation to provide ubiquitous service, and state regulatory obligations.[30] Competitive ETCs, particularly wireless ETCs, are not subject to many of the obligations placed on incumbent LECs. The goal of competitive neutrality is not well served when competitive ETCs share the benefits of USF support but do not share all the burdens placed on incumbent LECs. The goal of competitive neutrality would be better served if competitive ETCs were required to prove their own costs.

19. The OCC supports the FCC's proposal that competitive ETCs provide cost and line-count data to state commissions for review and approval prior to receiving USF

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28 Id.

29 Id. at para. 12.

30 While competitive ETCs are generally required to offer service throughout a designated territory, the service may be provided through a combination of their own facilities (including leased unbundled network elements), resale, and roaming agreements. Accordingly, competitive ETCs are not necessarily required to offer ubiquitous service using their own facilities or required to expand their networks beyond rural population centers.

support.[31] State commissions are in the best position to assess the needs of their own consumers and can perform a valuable role ensuring that USF support dollars are used wisely. The OCC also notes that the FCC proposes "a general set of rules" to govern the cost data submitted by competitive ETCs.[32] If the "general set of rules" does not adequately address critical jurisdictional issues and provide a detailed methodology, competitive ETCs, particularly wireless ETCs, could raise arguments of lack of state jurisdiction and federal preemption. The inevitable disputes between state commissions and competitive ETCs will stymie efforts to ensure the efficient and effective use of USF dollars. Accordingly, the OCC recommends that the FCC promulgate a "specific set of rules" rather than a "general set of rules" establishing clear and detailed standards for USF support. The OCC has previously adopted the FCC's requirements for ETC designation but found implementation difficult when those requirements lacked clarity.[33]

20. The OCC supports the methods for examining competitive ETC costs and calculating support proposed by the FCC.[34] The OCC supports the FCC's proposal to place a ceiling on the per-line high-cost support received by a competitive ETC that is equal to the per-line high-cost support of incumbent LECs.[35]

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31 Identical Support NPRM at para. 13.
32 Id. at para. 18
33 See Reverse Auction NPRM at para. 27.
34 Identical Support NPRM at paras. 14 – 24.
35 Id. at para. 25.

21. The FCC seeks comment on the sufficiency of the existing ETC designation and certification process and asks whether stronger protections are needed.[36] The OCC believes that the existing ETC designation and certification process along with the other protections suggested in Identical Support NPRM are sufficient. However, the OCC restates that it believes the FCC should promulgate a "specific set of rules" for any function of state commissions. As discussed above, any lack of specificity will result in disputes between state commissions and competitive ETCs about the role of state commissions. Some specific suggestions are identified below.

22. The OCC suggests that any five-year build-out plan include detailed maps in a standardized format so that state commissions can ensure that USF support dollars are used wisely and can compare the investment of USF support dollars between carriers.[37]

23. The OCC suggests that the FCC provide additional guidance to address disparate treatment of supported services offered by wireline and wireless ETCs. For example, wireline ETCs typically offer flat rate plans with unlimited local calling. Wireless ETCs typically offer consumers a bucket of minutes, bill for each minute, or use some combination of buckets and per-minute billing for local calling. To the extent that ETCs are required to offer Lifeline as a supported service, that leads to the question of how

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36 Id. at para. 26.

37 See Reverse Auction NPRM at para. 29.

should state commissions reconcile the unlimited Lifeline plans offered by wireline ETCs with the limited Lifeline plans offered by the wireless ETCs.[38]

24. For the reasons previously stated, the OCC supports the proposed elimination of the identical support rule. Further, the OCC recommends that the FCC promulgate a specific set of rules clarifying the oversight role of state commissions with respect to wireless ETCs.

V. REVERSE AUCTION METHODOLOGY

25. The FCC seeks comment on the merits of using reverse auctions as a method to determine the amount of high-cost USF support provided to ETCs serving rural, insular, and high-cost areas.[39] The OCC supports a change in the current USF support mechanism. However, reverse auctions, as proposed, may have unintended and irreversible consequences that will negatively impact rural consumers and may actually deprive rural consumers of telecommunications services. The OCC strongly opposes any reverse auction mechanism that could result in the loss of USF support for incumbent LECs.

26. The Reverse Auction NPRM describes proposals by CTIA, Verizon, and Alltel.[40] CTIA and Alltel propose to establish reverse auctions but allow losing bidders to receive

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38 Id. at para. 30.
39 Id. at para. 1.
40 Id. at paras. 5 – 9.

USF support at some lesser level than the winning bidder.[41] The Alltel proposal also ties a requirement to provide broadband service to the reverse auction.[42] The OCC does not support the CTIA and Alltel proposals. These proposals do not go far enough to restrain growth in USF support for competitive ETCs, particularly wireless ETCs.

27. The Verizon proposal establishes a reverse auction for wireless ETCs, a second reverse auction for wireline ETCs and the incumbent LEC, and eventually a possible third reverse auction pitting the winning wireless ETC against the winning wireline ETC.[43] Each reverse auction would have a single winner and losing bidders would receive no USF support.[44] The OCC opposes the Verizon proposal. While this proposal would significantly curb the growth of USF support, it would negatively impact rural consumers by severely limiting or eliminating the telecommunications services available in rural areas. The OCC urges the FCC to carefully consider the impact on rural consumers if an incumbent LEC is denied USF support by losing a reverse auction to, for example, a wireless ETC.

28. The stated goal of the USF is that "consumers in all regions of the nation should have access to telecommunications services that are reasonably comparable to those services provided in urban areas at reasonably comparable rates."[45] In areas of extremely

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41 Id. at paras. 5, 8, and 9.
42 Id. at para. 8.
43 Id. at para. 6.
44 Id.
45 Id. at para. 2. See also Identical Support NPRM at para. 2 and Joint Board NPRM at para. 2.

low population density, USF support is a necessity. If an incumbent LEC loses USF support as a result of a reverse auction, it is probable that the incumbent LEC would suffer economic hardship, stop operations or go bankrupt. In either case, rural consumers could be denied access to the most basic telecommunications services because most competitive ETCs, including wireless ETCs, rely on the incumbent network for, at a minimum, some amount of transport.

29. Perhaps the incumbent LEC might be required, by rule or economic circumstance, to sell its unprofitable network to the winning ETC bidder so that rural consumers could continue to receive telecommunications service. In this case, the Verizon proposal becomes a tool for the forced acquisition of small telephone companies by very large telephone companies who have the economic power to underbid the realistic and necessary support level for a particular rural area. The OCC opposes using the USF for this end.

30. Verizon proposes to pit wireline ETCs, including the incumbent LEC, against wireless ETCs in a reverse auction that will result in a single winner. The FCC recognizes that a majority of households do not view wireline and wireless to be direct substitutes.[46] The result of a reverse auction between wireline and wireless ETCs would likely deny rural consumers access to the losing technology, either wireline or wireless. This result defeats the underlying goal of the USF to ensure that consumers in all regions of the

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46 Identical Support NPRM at para. 10.

nation have access to telecommunications services that are reasonably comparable to services provided in urban areas at reasonably comparable rates.[47]

31. There is merit in holding a reverse auction for wireless ETCs. USF support for wireless ETCs represents a majority of USF growth since 2001.[48] For wireless ETC reverse auctions, the OCC supports a single winner approach rather than a multiple winner approach because a multiple winner approach will continue to encourage the inefficiency of redundant networks in high-cost areas.[49] However, the winning bidder should be obligated to open its network at wholesale prices to other carriers so that consumers benefit from the support no matter which carrier they choose. The goal of universal service is to get telecommunications services to rural consumers at affordable rates, not to force rural consumers into using a particular carrier. As previously stated, the USF should neither promote nor stifle competition.[50]

32. As a final comment, reverse auctions are unnecessary for wireline ETCs. Services provided by incumbent LECs and wireline ETCs are directly substitutable. Therefore, total line counts will not increase no matter how many wireline ETCs operate in a given area. However, wireline ETCs should be required to provide sufficient cost data to justify USF support.

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47 Reverse Auction NPRM at para. 2. See also Identical Support NPRM at para. 2 and Joint Board NPRM at para. 2.

48 Identical Support NPRM at para. 9.

49 See Reverse Auction NPRM at para. 17.

50 See footnote 12, above.

33. For the reasons previously stated, the OCC opposes any reverse auction that could result in the loss of USF support for an incumbent LEC. The OCC supports reverse auctions for wireless ETCs subject to the qualifications stated above.

VI. REFORMATION OF THE USF INTO THREE FUNDS

34. The FCC seeks comment on the Joint Board recommendation that the USF support be delivered through three distinct funds, each with three separate distribution mechanisms and separate funding allocations.[51] The three funds will provide high-cost support for:

a) broadband services through a Broadband Fund,
b) wireless services through a Mobility Fund, and
c) traditional landline services through a Provider of Last Resort Fund (POLR Fund).[52]

35. The OCC supports the Joint Board's recommendation to establish a Broadband Fund to disseminate broadband Internet services to unserved areas.[53] The Joint Board recommends that state utility commissions determine where support is necessary and administer broadband construction grants accordingly.[54] The OCC supports this approach.

36. The OCC supports the Joint Board's recommendation to establish a Mobility Fund to increase the availability and reliability of wireless service.[55] The Joint Board

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51 Recommended Decision at para. 11.
52 Id. at para. 11.
53 Id. at para. 12.
54 Id. at para. 13 - 15.
55 Id. at para. 16.

recommends that state utility commissions determine where support is necessary and administer wireless construction grants accordingly.[56] The OCC supports this approach.

37. The OCC supports the Joint Board's recommendation to establish a POLR Fund to provide continued support to rural incumbent LECs.[57] The Joint Board recommends that legacy support programs for incumbent LECs be left intact subject to some modernization to adjust for competitive pressures.[58] The OCC supports this approach.

VII. CONCLUSION

38. The OCC endorses and supports the Panhandle Proposal as an appropriate mechanism to curb USF growth. The OCC supports the proposed elimination of the identical support rule. The OCC opposes any reverse auction that could result in the loss of USF support for an incumbent LEC. The OCC supports reverse auctions for wireless ETCs subject to the qualifications stated above. Finally, the OCC supports the Recommended Decision of the Joint Board regarding reforming the USF into three funds.

Respectfully Submitted,

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56 Id. at para. 17 - 18.
57 Id. at para. 19.
58 Id.

ATTACHMENT A
The Panhandle Proposal

PTSI

PANHANDLE TELECOMMUNICATION SYSTEMS, INC.
An Affiliate of PANHANDLE TELEPHONE COOPERATIVE, INC.

RON STRECKER
Chief Executive Officer

Federal USF Distribution Proposal for Multiple ETCs
CC Docket No. 96-45

Developed by Ron Strecker
CEO of Panhandle Telecommunication Systems, Inc.

One of the main objectives of both the Federal Communications Commission (FCC or Commission) and Congress has been to control the rapid growth of the Universal Service Fund (USF). Controlling a ballooning fund can be accomplished in many ways and the FCC has been inundated with numerous proposals ranging from reverse auctions to funding caps. However, reigning in the high cost fund must be accomplished without abandoning long-held universal service principles developed by Congress in the Telecommunications Act of 1996 (Act) and the FCC and the Federal-State Joint Board (Joint Board) on Universal Service in their implementation of the Act.

In anticipation of a rulemaking in the near future on the various USF proposals and on the Joint Board's Recommended Decision, Panhandle Telecommunications Systems, Inc. (Panhandle)[1] submits its own proposal for consideration. Panhandle's proposal reflects its long history of providing crucial communications services in high cost areas. Panhandle requests that the Commission seek comment on the "Panhandle Proposal" and believes that the concepts in its proposal can lead to a more targeted and efficiently managed high cost fund.

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[1] Panhandle Telecommunication Systems, Inc. (PTSI) is a wholly-owned subsidiary of Panhandle Telephone Cooperative, Inc. (PTCI). PTCI is an incumbent local exchange carrier (ILEC) rural telephone company with approximately 15,400 access lines and receives high cost universal service support for its operations in Oklahoma, Texas, and New Mexico. PTSI is a provider of commercial mobile radio service (CMRS) in Oklahoma and Kansas, and competitive local exchange carrier (CLEC) service in Texas. PTSI provides mobile service to less than 10,000 customers and has been designated an eligible telecommunications carrier (ETC), receiving high cost support. As a CLEC, PTSI provides service to less than 4,000 access lines. PTSI also provides high-speed Internet services to over 7,000 customers and dial-up service to approximately 800 customers. The multiple business operated by Panhandle in high cost regions give it a unique and thoroughly rural perspective on universal service. Without adequate high cost support, many customers served by the Panhandle companies could be without vital telecommunications services.

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Panhandle's Proposal is intended as an alternative to drastic and untested "reverse" auctions and irresponsible requests that the high cost fund be eliminated in its entirety. Panhandle's Proposal eliminates the identical support and bases high cost support on a carrier's own costs, as well as establishing company caps. The elimination of the identical support rule reflects industry consensus concerning the unnecessary "windfall" that such support can provide in certain instances. The Panhandle Proposal allows for multiple wireless carriers in the same region to receive support on a targeted basis. However, Panhandle's Proposal contains an economic incentive for wireless carriers to use another carrier's network in areas where additional networks are economically infeasible. What follows are principles and specifics concerning the Panhandle Proposal.

Panhandle Proposal for Wireless CETCs:

The 1996 Act establishes the principle that consumers in all regions of the nation, including rural and high cost areas, should have access to telecommunications and information services at comparable rates enjoyed by consumers in urban areas.[2] Nowhere in the Act does Congress indicate that universal service applies only to certain types of telecommunications carriers and excludes others. However, Panhandle believes that the receipt of high cost universal service comes with an obligation, both ethical and fiscal, to use high cost support for the express provision of high cost universal service. Therefore, wireless carriers who directly or indirectly benefit from high cost support used to build out wireless networks in rural regions where multiple networks are cost prohibitive should be required to provide roaming on a non-discriminatory basis to other wireless carriers in their area and their customers. With the receipt of high cost support for wireless build out comes the obligation to share the high cost network with *all* customers who need access to the network.

Roaming Obligation

Under the Panhandle Proposal, wireless competitive eligible telecommunications carriers (CETC) receiving high cost support would be required to make their network available to the other wireless carriers licensed to serve in the same eligible telecommunications carrier (ETC) markets at a reduced rate. This would permit wireless carriers licensed to serve the same area to indirectly benefit from federal high cost support and better serve their customers residing in that market. This reduced rate would generally be lower than the standard roaming rates charged to wireless carriers who do not hold licenses in the ETC area and whose customers reside outside the ETC area and roam in the licensed area. The reduced roaming rate would be based on the national average cost to produce a wireless minute, and is referred to as the local wholesale rate. The local wholesale rate would be based on wireless carrier costs. The local wholesale rate would also be used to determine high cost support for wireless ETCs, as discussed below.

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[2] *See* 47 U.S.C. § 254(b)(3).

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Calculation of Costs, Rates, and Support

To determine wireless carrier costs for the receipt of high cost support, Panhandle suggest a formula be developed to allow wireless carriers to calculate their own costs based on a national average cost without resorting to the highly-regulated and burdensome cost accounting methods currently required of ILECs.

Specifically, on an annual basis, all wireless carriers would report to the FCC, or alternatively the National Exchange Carrier Association (NECA) or the Universal Service Administrative Company, the cost of maintaining their respective network, and the costs associated with completing a call. Included in these costs would be towers, antennas, switches, buildings, backhaul, spectrum, clearinghouses, the net cost of call termination, and network maintenance. Also included would be an approved rate of return on the investment. Excluded from these costs would be administrative costs, marketing expenses, and customer handset subsidies. Carriers would also report on an annual basis the total number of minutes generated by their networks. Many of these costs are available from CTIA's annual survey which provides capital expenses, average minutes, and revenue per customer. Wireless carriers and regulators would thus be able to compare a wireless carrier's individual costs with a national average cost.

National Average Cost per Minute

The total cost of all wireless networks would be divided by the number of minutes on all networks in order to come up with a national average cost per minute. An individual carrier would calculate its own cost per minute by dividing its costs by number of minutes. Roaming minutes would count on both national and individual calculations of minutes.

In order to determine an individual carrier's support, a multiplier, based on the company's size, would be applied to the national average cost per minute. This multiplier could be adjusted to control the size of the fund and to reflect any unforeseen wireless cost trends. The following multipliers are intended for discussion purposes only:

i. 1.50 for Tier I carriers
ii. 1.35 for Tier II carriers
iii. 1.15 for Tier III carriers

Applying this multiplier to the average national cost per minute would yield a figure used to determine the local wholesale rate discussed above. The local wholesale rate would also be used to determine the rate at which carriers would begin receiving high cost support. For example, if the national average cost per minute is 2 cents, after applying the 1.15 multiplier for Tier III carriers, the local wholesale rate would be 2.3 cents per minute. This would be the wholesale rate the Tier III carrier would be obliged to charge for the provision of roaming to the customers of licensed wireless carriers in its ETC area.

High Cost Support

To determine high cost support using the local wholesale rate, the individual carrier simply compares its cost per minute to the local wholesale rate for its Tier. For example, if a Tier III carrier's cost is 10 cents per minute and the local wholesale rate, as calculated above, is 2.3 cents per minute, high cost support for that carrier would be 7.7 cents per minute. As minutes grow, one would expect the cost per minute of an individual carrier to decrease.

Tier I wireless carriers have massive economies of scale and purchasing power in comparison to Tier II and especially Tier III carriers. By using a lower multiplier for Tier II and Tier III carriers, large carriers' economies of scale and purchasing power are taken into account.

Cap on Support

The Panhandle Proposal includes a high cost company cap of ten times the national average cost per minute. This will help ensure that networks not supported by sound business plans are discouraged. For example, if the national average cost per minute is 2 cents as in the examples above, if a wireless CETC's costs are 25 cents per minute, it may be unwise to build out such a costly network since it will only be supported up to 20 cents per minute. However, recognizing that some networks may in fact have legitimate high costs above and beyond the cap, the FCC should allow a waiver of the cap if it is in the public interest to do so.

Panhandle Proposal for Wireline CETCs:

Wireline CETCs receiving high cost support should be required to perform a cost study identical to the cost study required of rate-of-return (ROR) ILECs. High cost support received by a wireline CETC shall be based on actual cost, *not* the identical support rule. Since many rural CLECs are accustomed to preparing cost studies in their affiliated ILEC areas, they should be willing to prepare a similar study for their CLEC areas as well. However, high cost support for CLEC ETCs should be capped.

Cap on Wireline CETC Support

Individual company caps on high cost support for wireline CETCs will be based on state high cost support averages per line received by incumbent rural telephone companies in the state. Panhandle proposes a cap of one and one half (1.5) times a state's rural telephone companies'[3] high cost support average per line. This will help discourage

[3] 47 U.S.C. §153(37).

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economically infeasible networks. However, recognizing that some networks, especially in extremely high cost yet unserved areas, are deserving of support, a waiver process should be allowed

Conclusion

Panhandle's intent in introducing the Panhandle Proposal into the fray of USF proposals is to provide the Commission with a decidedly rural perspective that is neither a "rural telephone company" plan nor what would normally be characterized as a "wireless" plan. Panhandle hopes that as the Commission moves forward on long term universal service reform, it can focus on the high cost concerns of small, rural telecommunications carriers like the Panhandle companies that are on the front lines in their provision of high cost universal service.